



FIRST INTERIM REPORT

ON THE

**POSSIBILITIES OF THE APPLICATION OF
SOCIAL CREDIT PRINCIPLES TO THE
PROVINCE OF ALBERTA**

Submitted to His Majesty's Premier and Legislative Council
of Alberta, at Edmonton, Alberta

May 23rd, 1935

By MAJOR C. H. DOUGLAS

**Together with Correspondence which followed the
Report, between Premier R. G. Reid and Major
Douglas, and between Hon. J. F. Lymburn,
Attorney-General, and Major Douglas**

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PREAMBLE

In order to provide an understandable background for this Report, it seems necessary to recall certain general considerations.

Stripped of unnecessary complications, a community such as the Province of Alberta, with a governing body entrusted with certain powers, may be considered as an association of individuals to obtain conditions of life, both social and economic, which could not be obtained without organization. It is not only an association for the purpose of working effectively, but also an association to enable the eventual objective of the work to be realized in enjoyment.

The essential wealth of such a community, looked at from its productive side, consists in its physical assets, either in the state in which they are found in nature, or as improved by the application of labour, and in particular, modern industrial methods; and even more importantly in its vital assets, represented by its population and their state of education, intelligence, morals, health and social well being. That is to say "wealth" is not "money."

It is a matter of universal experience, however, that none of these forms of real wealth, enumerated above, can come into the possession and control of the individual without the use of this device, commonly called money, but which is more comprehensively defined, and in fact more easily understood, by its technical term "effective demand."

Effective demand originated in the barter system, that is to say individuals parted with a surplus of real wealth in their possession to obtain in exchange real wealth of a different variety for which they had a need. The barter system became modified when the idea of a third factor, erroneously considered as the embodiment of wealth, for instance gold and silver, came into use as the common method of exchanging real or useful wealth. The fact that gold and silver are themselves commodities, having certain uses, for ornament or otherwise, no doubt served to intensify this idea. The great increase of wealth of a genuinely useful kind, as compared with the symbols of wealth supplied by the precious metals, forced the introduction of other forms of symbolic wealth, still carrying with them the barter conception, but being in fact merely claims on wealth of the same nature that a railway ticket is a claim upon transportation, while having no value in itself, a condition of affairs which exists at the present time in relation to the specific form of ticket that we term a dollar bill.

In the modern world, however, the preponderating feature in effective demand which is universally employed to carry on the world's business is what is technically called a "credit instrument," of which there are several forms. For the purposes of this preamble it is only necessary to consider the cheque.

The cheque is essentially a draft upon an allotment of the public credit, by which is meant the well founded belief that certain quantities of real wealth, having price figures attached to them, corresponding to the amount of the cheque, and produced by unspecified members of the public, will be delivered in return for the cheque, and a cheque is therefore, so far as it is accepted as money, a form, and the most common form, of effective demand.

While it is clear that under a barter system there is always sufficient effective demand although it may be inequitably distributed, under a money or cheque

system both inequitable and ineffective demand are certain unless production and demand are consciously and systematically related.

Cheques are drawn upon deposits, and it is admitted by all responsible authorities that deposits are created, to a major extent, by purely book-keeping transactions on the part of banking institutions. It is therefore correct to say that banking institutions are in a position to create, claim as their property, and to lend upon their own terms, effective demand which is the only method by which real wealth produced by the general public can be transferred from the producer of it to the user. The question as to the legal right of banking institutions to claim effective demand of public property, thus created, as their own exclusive property, and to lay down the terms upon which it shall be issued and the conditions under which it must be repaid, together with the price which shall be paid for the temporary use of it, will be examined in the main body of this Interim Report. At the moment it is sufficient to emphasize that the whole economic structure, the security of the individual, his social environment, his level of education, and to a large extent the conditions of his physical, mental and moral development, are controlled by the provision or withholding of this effective demand which is in essence merely a book-keeping process.

While it is probably true to say that, as at present conducted, the art of banking consists essentially in "fooling some of the people all of the time, and all of the people some of the time," it would be a mistake to overlook the fact which must proceed from the obvious importance of finance, that the conditions of material progress and the possibilities of a continuing and improving standard of living have been and are being achieved within the framework of the financial system. While it is generally agreed that this is so, it is not widely understood that modifications are essential to enable these processes to be continued. Without going too far into this aspect of the matter, it may be said that the financial system in its orthodox form has worked fairly successfully during an age of expansion in which preponderatingly large quantities of capital goods, not intended to be directly by individuals, have been produced, and the purchasing power or effective demand which has been distributed to individuals as an inducement to produce other capital goods has been available to them as effective demand for a sufficient quantity of consumable goods. Since this process of expansion is beyond question proceeding at a much slower rate, while the debts which have been contracted in regard to previous expansion are becoming increasingly onerous, sufficient purchasing power for the use of the general population does not become available through orthodox methods, and if it did, by excessive concentration upon capital production or Public Works, the breakdown of the system owing to intolerable debt charges would only be accentuated.

In regard to the Province of Alberta, therefore, it appears to me to be evident that little which is effective can be done to relieve the economic difficulties which exist unless a departure is made from methods which were moderately effective in the past but are no longer suitable to conditions which have changed fundamentally. Any attempt to deal with the situation, which does not recognize its fundamental cause, must discredit the Administration and eventually result either in an abolition of organized forms of government in favour of a pure financial hegemony, or in a continuous disintegration of social morale, possibly ending in something approaching anarchy. Both Europe and America, under the Bank of England and the Federal Reserve System respectively, have been subjected to almost a complete financial hegemony for the past fifteen years, with results which are evident.

If this aspect of the matter were that alone requiring consideration, it does not appear probable that any government could hesitate in immediately instituting modifications designed to rectify the situation. Unfortunately, however, this monopoly of the creation of effective demand, which has been allowed

to pass for the most part into the hands of the banking system, from its very nature constitutes a formidable power, having objectives of its own not those of the general population, and it is therefore entirely proper that the consequences of challenging its interests should be examined.

THE NATURE OF THE PRELIMINARY INQUIRY

1. At the outset, it must again be emphasized that a distinction should be drawn between any particular plan for the utilization of the public credit, when control of it as has been acquired, and a strategy for acquiring the power to deal with the public credit. If this distinction be understood, it will be realized that plans for dealing with the public credit are wholly premature, while the power to deal with it has not been attained. For this reason I propose to confine myself in this preliminary report to possible methods and strategy in regard to the preliminary objective, that of obtaining access to the public credit.

2. It does not require much consideration to realize that it is not very probable that an effective strategy can be pursued to a successful conclusion with the whole hearted co-operation of those operating a financial system which already possesses the monopoly of credit, with all the powers and privileges which that situation implies. To put the matter concretely, every step in this direction will be opposed, and must inevitably be opposed by, e.g., the Bank of Canada, acting for the International Bankers. It is not so certain that, under the changed conditions, the same remark applies wholly to the Chartered Banks, as, for instance, in Great Britain, a sharp cleavage is developing between the Joint Stock Banks and the Bank of England. It is perhaps, however, safer to assume that the banking system of Canada would unite against any steps in this direction.

3. The first consideration which arises is as to the legality of the claim of the banking system to public credit, taking the law as it stands. It is obviously a consideration secondary to this, to consider what sanctions, due to the power of public resentment against an usurped and anti-social claim, could be raised, even though this claim had become legalized. In regard to the first question, in the Province of Alberta the matter is by no means clear. The power of printing legal tender money, or that which passes as money, undoubtedly belongs to the Dominion, and has now been delegated to the Bank of Canada. But it cannot be contended that this disposes of the question, since, if it did, banks would be prohibited from issuing cheques, which quite unquestionably pass as money, and are not Dominion or Bank of Canada documents.

Further than this, matters of property and Civil Rights are the exclusive domain of the Provincial Government, and it is difficult to contend that it is not a Civil Right for an individual to write an order upon himself calling for the delivery of a portion of his property. Such an order is effective demand. Further than this, the Provinces are specifically granted the right to raise loans upon the sole credit of the Province. Such loans are raised in money or credit instruments, and have to be repaid in money or credit instruments, and the interest upon them has to be paid by credit instruments. Therefore, if it be contended that the Provinces have no power to issue credit instruments, the phrase "the sole credit of the Province" has no financial meaning, although it may have a realistic meaning.

In this connection, I should like to acknowledge the valuable assistance of Mr. Gray of the Attorney General's department, and the brief kindly submitted to me by Mr. Herbert C. Boyd, M.A., LL.B., of Edgerton, Alta., both of which informations so far as they go, seem to confirm my own view of the position.

4. It would therefore seem that there is room for considerable action on the part of the Province without placing the Province in danger of the invocation of

legal sanctions against it, by the banking system, acting on the premise that it has sustained a tort. The second obvious sanction (and one not contained in the legal system) to be considered is the effect which might be produced by a refusal of financial facilities from the existing financial system, together with an attack of a psychological nature upon the action of the Province.

5. It is clear, and all experience confirms this view, that if credit instruments can be issued under the sanction of the constituted legal authority (in this case the Province), no difficulty arises in obtaining their universal acceptance within the range of the jurisdiction of the governing body. This has been successfully demonstrated beyond question in many instances and under the most unfavourable conditions, during the past twenty years. In Great Britain in 1914 the whole population was accustomed to handling actual gold coins, and, in fact, strongly disliked the only existing paper money, the Bank of England note. Within a week of the outbreak of war a complete change from gold metallic currency to a paper currency was instituted without visible shock, in spite of the well known existence of enemy *agents-provocateurs*, using all possible efforts to destroy confidence in the new money. Under conditions which could never be paralleled in this country, and after calculated inflation never before known in history, one series of paper Marks after another has been accepted and has functioned in Germany with no tangible backing other than the mere declaration that it was legal tender. No difficulty might be expected, therefore, if certain cheques were made legal tender.

6. A difficulty does arise, however, where a considerable portion of the commodities required have to be imported from outside the credit area over which the Government has jurisdiction, and it is essential for the practical solution of this that a considerable amount of what may be considered as foreign currency or credit should be accumulated. I have given considerable attention to this aspect of the matter, and I do not believe that it is insuperable in regard to Alberta, more particularly since the fear of repudiation has raised in the mind of the external bond-holder a recognition that his debtor has claims upon his consideration, particularly if no suggestion of fundamental repudiation is contemplated.

7. The sanctions therefore that can be applied to penalize action against the existing monopoly of credit, so far as Alberta is concerned, do not appear to be legal, and do not appear to extend so far as to render an internal credit system unworkable. They appear to be more formidable in connection with the exchange problem which is raised as between Alberta production and imports to be exchanged for the surplus of it, but even so they are not novel, and methods for dealing with them have been successfully applied both in Russia and Germany.

8. On the other hand it is important to realize that the sanctions are not wholly upon one side. To use the vernacular, the whole world is becoming "money conscious." While revolt against financial mismanagement appears to be for the moment more vocal in the Western Provinces of Canada, it is by no means non-existent in the East. It has grown rapidly, and is powerfully represented in the Senate and Congress of the United States, and is becoming a popular movement on the Pacific Coast. It is highly probable that the next Government of New Zealand will be committed to some form of Social Credit, and in the State Governments of Australia, as distinguished from the Federal Government, its power is growing so rapidly that it is not easy to state the present position. There is much discussion of the subject in South Africa. In Great Britain the position is probably even more important, though less apparent to casual observation, in view of the closely-knit Press organization and the monopoly of broadcasting, which is intimately associated with the Bank of England.

9. The practical importance of this in regard to Alberta is that vindictive action by the financial authorities could be pilloried through the agency of Press and broadcasting to an audience which is already sufficiently instructed all over the world to grasp the questions that are at stake, and has a pronounced bias against the banking system as it exists at the present time.

10. Further, sanctions, which do not contemplate essential repudiation, exist in the external debt of the Province, and in the circumstance that the producing organizations external to Alberta are just as anxious to receive orders upon any terms which will enable them to meet their financial commitments as Alberta could be to receive their product.

11. It may not be out of place to comment at this point upon the rise of the idea of secession. In this connection it should be noticed that disintegrating influences are evident, not merely all over the British Empire, but in such countries as Spain, Southern Germany, and the Western States of America. In every case with which I am acquainted the disintegrating influence is financial and so far from a modified financial system tending towards a secessionist policy, any informed examination of the question seems to indicate that it is the existing financial system which is the seed-bed of disintegration, and that a modification of it, which, if successful, could not fail to spread with immense rapidity, would be the shortest method of disposing of such disintegrating influences. That, in fact, it is only insistence upon an ineffective financial system which raises the question of secession into the sphere of practical politics. The real secessionists, therefore, are those who insist upon an orthodox financial policy, regardless of its consequences to the population affected.

12. To summarize the position, therefore, the alternatives lie between a surrender to interests whose legal position is doubtful, and whose power, though admittedly great, is neither impregnable nor free from serious attack in quarters outside Alberta, on the one hand, and measures designed to free the Province from external financial control. The result of the former line of action can be judged from past experience, and in my opinion must involve failure to solve the so called unemployment problem, a stationary or only very slowly increasing population in this Province, inability to develop the resources of the country, and political and social disintegration. Orthodox financial assistance would, however, be available, by the adoption of this policy, although accompanied by a rise in the public debt, and a continuous drain on individual financial resources through rising taxation. If this policy is adopted all experience tends to show that preparations for severely repressive measures, through increased police organization, are essential.

13. The consequences of the adoption of the second policy, if properly conducted, might mean temporary difficulties in regard to the import of articles not produced in the Province, a certain amount of political conflict with the Dominion Government, and a good deal of misrepresentation as to the actions and policies which accompanied this general attitude.

14. On the other hand, it would be possible, within a very short period of time, to minimize the unemployment problem in the Province, to increase the general standard of living of the whole population without decreasing that of any of its members, and to embark upon a systematic development of the resources of the Province on a scale otherwise unattainable.

15. In general, and without at the moment going into too much detail, the preliminary steps to be taken in this direction are, in my opinion:

(1) The systematic provision of a News circulation system under the unchallengeable control of the Province, particularly in regard to radio facilities of sufficient power to cover a wide geographical area.

(2) The organization of some Credit Institution, either under the Dominion Bank Act or otherwise, which will give access to the creation of effective demand through the credit system, on principles already well recognized and established.

(3) Systematic organization directed to the accumulation of what, for the purposes of this report, may be termed "foreign exchange," i.e., effective demand not subject to attack as being recognizable as having been created within the Province.

(Signed)

C. H. DOUGLAS,
Chief Reconstruction Adviser to
His Majesty's Government of Alberta.

Memorandum Re Legislative Powers of the Province

**Submitted by W. S. Gray, Attorney General's Department, at Request of the
Government for the Guidance of Major Douglas in
Making His Report**

The following two questions have been submitted to me for an opinion:

1. What meaning is to be given to the words in Subsection 3 of Section 92 of the British North America Act as follows:

"The borrowing of money on the sole credit of the Province."

I am not able to ascribe any meaning to the word "credit" in this subsection other than the ordinary, everyday meaning found in Murray's New English Dictionary of "trust or confidence in a person's ability and intention to pay at some future time."

2. Is there anything which justifies the separation from the accepted meaning of property of the right to issue effective demands upon that property?

Involved in this question is the meaning to be given to the words "property and civil rights" contained in Subsection 13 of Section 92 of the said Act. It is quite difficult to give an opinion on the proper interpretation of any Subsection of Section 91 or Section 92 of the said Act without having something concrete to work upon.

This was pointed out by Viscount Haldane, Lord Chancellor, in *John Deere Plow Co., Ltd., vs. Wharton*, reported in 1915, *A.C.* p. 330. The Lord Chancellor said at p. 339:

"It must be borne in mind in construing the two sections that matters which in a special aspect and for a particular purpose may fall within one of them may in a different aspect and for a different purpose fall within the other. In such cases the nature and scope of the legislative attempt of the Dominion or the Province (as the case may be), have to be examined with reference to the actual facts if it is to be possible to determine under which set of powers it falls in substance and in reality. This may not be difficult to determine in actual and concrete cases. But it may well be impossible to give abstract answers to general questions as to the meaning of the words, or to lay down any interpretation based on their literal scope apart from their context."

The words "property and civil rights" are very wide, and standing alone would, I think, include not merely property and civil rights as generally understood, but also the right to issue effective demands upon property.

In *Citizens Insurance Co. of Canada vs. Parsons*, 7 A.C. 96, the question involved was the validity of certain legislation passed by the Province of Quebec and dealing with insurance contracts and certain statutory conditions attached to such contracts. It was contended in that case that the words "property and civil rights" had a narrow meaning and that they would not extend to include contracts between individuals. This contention was not given effect to, however, and Sir Montague Smith, in giving opinion of the Privy Council, said at p. 111: "In this Statute the words 'property' and 'civil rights' are plainly used in their largest senso and there is no reason for holding that in the Statute under discussion they are used in a different and narrower one."

There can be no doubt, therefore, that the words, standing alone, would justify the answer—no—to question No. 2 above, and that the Province, *prima facie*, would have the right to legislate in the manner suggested by the question.

In the same case, however, Sir Montague Smith uses the following language at p. 109:

"The first question to be decided is, whether the Act impeached in the present appeals falls within any of the classes of subjects enumerated in Section 92, and assigned exclusively to the legislatures of the provinces; for if it does not, it can be of no validity, and no other question would then arise. It is only when an Act of the provincial legislature *prima facie* falls within one of these classes of subjects that the further questions arise, viz., whether, notwithstanding this is so, the subject of the Act does not also fall within one of the enumerated classes of subjects in Section 91, and whether the power of the provincial legislature is or is not thereby overborne."

Also, in the *John Deere Plow* case, Viscount Haldane stated at p. 340:

"The expression 'civil rights in the Province' is a very wide one, extending, if interpreted literally, to much of the field of the other heads of Section 92 and also to much of the field of Section 91. But the expression cannot be so interpreted, and it must be regarded as excluding cases expressly dealt with elsewhere in the two sections, notwithstanding the generality of the words."

The power, therefore, of the Province to legislate may be overridden by the power to the Dominion Parliament in Section 91, such as:

14. Currency and coinage.
15. Banking, incorporation of banks and the issue of paper money.
20. Legal tender.

A good example of this is found in the case of *Tennant vs. Union Bank of Canada*, 1894, A.C. 31, in which it was held that the certain legislation contained in the Bank Act was valid—notwithstanding that the exercise of the power interfered with property and civil rights in the Province and conferred upon a bank privilege as a lender which the Provincial law did not recognize.

I am not in a position to express any opinion as to whether the powers given to the Dominion Parliament under Section 91 would override the powers given to the Province with respect to property and civil rights, without having before me something concrete in the way of a draft of proposed legislation.

Letter from Major Douglas to Premier Reid Conveying the Interim Report

Macdonald Hotel,
Edmonton, Alta., Canada, 23rd May, 1935.

Dear Mr. Reid:

With this letter I am sending you the original and duplicate of my First Interim Report to your Government on the Possibilities of the application of Social Credit Principles to the Province of Alberta.

You will notice that in this Report I have taken the line that action initiating in Alberta, though quite possibly not ultimately confined to Alberta, is both possible and desirable, and that such action must have as its first objective access to the financial credit which is properly based upon the resources and the people of Alberta itself.

To put this matter beyond possibility of misapprehension, I might state that in my opinion no mere redistribution of the purchasing power already available in Alberta can be effective in attaining, at any rate with sufficient rapidity, the results demanded both by the general situation and by public opinion, and that there is no likelihood of credit being obtained from ordinary sources upon such terms as would be suitable, to the extent which is required.

I feel sure that you will agree that before I can proceed very much further I must have some decision as to the general policy which is to be pursued, and I am aware myself that you will require a Mandate for such a decision.

In regard to this matter, and assuming accordance with the general underlying policy, I should suggest that a Mandate be asked, as far as possible, for objectives rather than for mechanisms. These objectives in my opinion should be firstly those contained in the last section of my First Interim Report, and should be supplemented by a statement of ultimate objectives of which the following are fundamental:

1. A drastic reduction of taxation, particularly upon real property.
2. A maintenance dividend as of right, possibly small at first, and graded so as to be at a maximum after middle age.
3. Measures designed to produce a low price level within the Province, with adequate remuneration to the producer and trader.
4. Development of internal resources based rather upon physical capacity than upon financial considerations.

All of these objectives can be attained, and can only be attained by access to control of the local credit.

The problem is at least as much a political as a technical problem, and if I might venture to make two tentative suggestions in regard to the former aspect of it, they would be (1) that, if not at present, at some suitable time, as early as possible, a coalition government should be formed, and (2) that a Department of Public Relations should be organized specifically to deal with criticism from the public both with a view to keeping the general public informed and also for the purpose of discouraging by suitable methods loose accusations of defective administration.

It does not appear that I can do very much more in Alberta which will be immediately effective until the general situation is cleared upon the lines I have just indicated, and I am therefore devoting my attention to collecting information which will enable me to proceed in accordance with the instructions of the Government when they can be given.

If this would meet your views, I propose to leave Alberta about the 31st instant, with sufficient information in my possession to enable several months' work to be carried on in England.

Yours very truly,

The Hon. R. G. Reid,
Premier of Alberta,
Legislative Assembly,
EDMONTON, Alta.

(Signed) C. H. DOUGLAS.

Letter from Premier Reid to Major Douglas Following Receipt of Interim Report

Edmonton, Alberta, June 1, 1935.

Dear Major Douglas:

Discussions we have had both preceding and subsequent to the receipt of your interim report have had the effect of clarifying many of the issues confronting us.

My purpose in writing at this time is to fix certain ideas that developed during these discussions, which otherwise might remain rather vague.

You take the view that the field of issuance and control of credit instruments is not fully allotted to Dominion jurisdiction, but that a portion of it remains with the Province.

Having reached this conclusion you make three recommendations which are not ultimate objectives but merely preliminary steps in the direction of reform. If nothing further could be done these measures would be of little avail.

You stated that the ends to be achieved through social credit, namely, the distribution of a maintenance dividend and the securing of a low price level within the Province, with adequate remuneration to the producer and the trader, can only be attained by securing access to control of the local credit, and that the distribution of dividends from a fund to be raised by a levy on production or by sales tax would be merely a redistribution of the purchasing power already available in Alberta, ineffective in attaining the results sought, and would not be social credit as expounded by you.

To my suggestion that the people of the Province are expecting that your report to the Government will outline a social credit plan applicable to Alberta you replied that without much further study of statistical data with respect to production, imports and other economic factors, it is impossible to state at what time or in what amount maintenance dividends could be paid, and further that until the power to deal with the public credit has been secured plans for dealing with it are wholly premature.

I would like to express my appreciation of the readiness with which you placed yourself at our disposal at all times and your unfailing courtesy throughout all our lengthy discussions.

Undoubtedly questions will raise themselves in our minds as a result of our continued consideration of these matters, and I will be writing you from time to time as there is occasion to do so.

Yours faithfully,

Major C. H. Douglas,
Macdonald Hotel,
EDMONTON, Alberta.

(Signed) R. G. REID.

Letter from Major Douglas to Premier Reid

Macdonald Hotel,
Edmonton, Alta., Canada, 2nd June, 1935.

Dear Mr. Reid:

Thank you for your letter of June 1st.

In regard to the latter three of the five paragraphs of the first page of your letter, I would suggest that these appear to be a paraphrase of the subject matter of my report perhaps rather than a precis of our discussions. Since the report itself is highly condensed and the matters to which you refer cannot, I think, be with propriety detached from the subject matter which is included, I think it would be preferable to regard the report itself as covering them with the greatest possible brevity.

In regard to the first paragraph upon page two, much the same remarks apply in reference to my letter to you of the 23rd ultimo. While it is quite correct to say that the power to deal with the public credit in some form is a pre-requisite of any Social Credit plan, I am precluded from putting before you plans for the use of such credit when attained until I have a decision from your Government as to the general policy which is to be pursued.

I assume of course in this connection that no paraphrase of any statement made by me will be made public from official sources, and that should you deem it desirable to publish any documents over my signature, the whole document will be published. It is probably superfluous to add that comment on such documents when published in full is wholly legitimate.

In conclusion I should like to thank you for your very kind remarks in the two concluding paragraphs of your letter, and to assure you that I have found my conferences with your cabinet both pleasant and interesting, and that I hold myself entirely at your disposal for any assistance that it is in my power to give, either in regard to this matter or any other matters which would be a convenience to you, owing to my presence in London.

Yours very truly,

The Hon. R. G. Reid,
His Majesty's Premier of Alberta,
The Legislative Assembly,
EDMONTON, Alberta.

(Signed) C. H. DOUGLAS.

Excerpts from Broadcast of William Aberhart May 28th, 1935

**Submitted by Hon. J. F. Lymburn, Attorney General, to Major Douglas with
Requests for Comments in His Position as Economic
Adviser to the Government**

MANNING: Mr. Aberhart, I think you should say a little about the just price. This is really the finest feature for the merchants and business men of our Province. The problem that the business men are up against because of cut throat prices and this mad rush after business through manipulation of prices is driving our business men in this Province to the wall. I am sure that if the business men of this Province could get to understand the workings of the just price there will not be any business men in the whole Province that will not support the principles of social credit.

ABERHART: Yes, Manning, I think you are right. I am satisfied that the business men can very easily see that if sufficient basic monthly dividends were issued to provide the bare necessities of food, clothing and shelter to the people that there will be at once a very large increase in the purchasing power of our people. This of course will reflect itself at once in the very great increase in the turnover of the merchant's stock. Every business man knows that his profit really rests with the amount of his turnover rather than on the immediate profit on any goods that he carries. Great departmental stores have proven that a large turnover at a low profit is far better than a small turnover at a large profit.

Some men try to tell us that as soon as we increase the purchasing power of the people by the issuance of basic dividends there will be a tendency towards the vagaries of inflation; that the price level will rise to consume the increased purchasing power, and no great benefit will be accomplished. It is at this point that we will tell or introduce the just price.

This is where the just price comes in. It is the purpose of the government to form a commission of experts . . . in various fields of professions or trades, whose duty it will be to discuss and carefully settle what a fair price would be for each article that is offered for sale within the bounds of this Province. They would take into account the cost of the raw materials, the cost of the labour, the cost of the machinery, the overhead charges for insurance, and so forth. They would add to this the commission on turnover and also the unearned increment. That is and should be the property of the state.

MANNING: At present this increment is being exploited by the manipulators of credit.

ABERHART: Yes. There is a point that many people miss. Now this just price would be the same wherever you bought the goods. It would be just to the producer, just to the distributors and just to the consumer. No producer would be required to sell the goods below the cost of production, no distributor would be required to sell the goods below the cost of securing them, whether he imported the goods or whether he gets them from our own producers. In addition to this, the just price would be just to the consumer. He would not be exploited of his purchasing power by very high prices.

This would give the small merchant a chance on a par with the larger ones. The competition would not be in price, but in service—in the delicacy with which he exposes goods to the public gaze, for the neatness and cleanness and sanitation of his store, and so forth. No merchant would find after paying \$3.21 a case for any article that another store was selling it on a leader counter at \$2.80 a case.

Guarantee on account of the consumer—a guarantee of the account of the consumer would protect the retailer from the losses that he so often has under the present system. The increased turnover of his goods would again prevent him from loss from the goods drying out, decaying or becoming shop-worn.

The increased turnover would at once make a greater demand for clerks in the store, shippers in the wholesale houses and railway clerks on the trains and busses, and also clerks in the producing houses. Unemployment therefore would immediately be decreased to a greater extent.

It is true that the spread in prices would be less, but if the increase in turnover was twice or three times what it formerly was, then the merchant would be able to secure greater returns through a greater turnover, even if his profit spread was less.

MANNING: You would think that any man who understood that just price arrangement if he is in business would not hesitate one moment to back up the whole system of social credit.

Major Douglas' Reply to Hon. Mr. Lymburn

Macdonald Hotel,
Edmonton, Alta., Canada, 1st June, 1935.

Dear Mr. Lymburn:

In connection with your request to criticise the attached report of a broadcast by Mr. Aberhart, I think it is only fair to make a little introductory comment.

If Mr. Aberhart's objectives were only attainable by the methods which he has outlined in his broadcasts, to the limited extent that I am familiar with them, the details that he has given would certainly be of primary importance.

This is certainly not the case, and should Mr. Aberhart be placed in a position of responsibility in regard to the attainment of these objectives, it is most improbable that he would either have the time or the inclination to deal with the purely technical aspects of the matter. While my contact with Mr. Aberhart has been of the slightest, and is in fact confined to two short interviews in which only the most general aspects of the matter were discussed, I am informed that he also takes up this position.

In addition to this, it has to be recognized that the correct methods of dealing with the technical problems involved in the attainment of the objectives put forward by Mr. Aberhart are difficult to bring to the comprehension of even a small number of highly educated men, chiefly because they involve conceptions with which only a small number of experts are intimately familiar, and because they traverse the common and erroneous conceptions held in regard to matters of finance.

It appears to me to be quite reasonable to assume that a popular leader, as distinct from a scientific exponent, is chiefly concerned with presenting an understandable picture rather than with great accuracy in detail.

As a matter of opinion, I think Mr. Aberhart has made the common tactical mistake of elaborating his detail to a general audience to too great an extent, but if this detail is to be taken seriously I think that Mr. Aberhart should as a matter of courtesy be asked whether such details are, or are not, a matter of principle with him.

With these preliminary remarks, which I should like to be regarded as an integral part of my criticism of the attached paper, I may say that the explanation of the Just Price is not that which can be applied to the same phrase as used in the responsible literature of Social Credit, and that the explanation given can best be described as a proposal for regulating Price Spreads together with a Processing Tax.

The proposal appears to contemplate a fixed price regardless of costs, which seem to be assumed as constant, and this price includes something labelled "the unearned increment" which has, however, no relation to that phrase as used in the Social Credit literature. So far from such a proposal increasing purchasing power it is a form of taxation which in all probability decreases purchasing power by raising prices. It involves a confusion between price values and the purchasing power to liquidate them. There is also a suggestion of a common form of the Velocity of Circulation theory to the effect that purchasing power is increased by rate of turnover. Both under the form in which it seems to be expressed here and not less in the form in which it is quite frequently quoted by orthodox bankers, it is demonstrably incorrect. For an examination of it I might refer you to my small booklet "The New and the Old Economics" of which no doubt a copy will be locally available. I am sorry I have not a copy with me.

Generally speaking it would appear upon the face of it that Mr. Aberhart has not grasped that Social Credit involves the *creation* of additional purchasing power, either by the reduction of prices below cost, for the purpose of enabling the consumer to obtain more goods for a given amount of money in his possession, while the financial deficit thus caused is made up to the producer in fresh credit, or by issuing additional sufficient purchasing power which is not passed through the costing system and therefore does not increase prices, in the form of a National Dividend, or more probably by both of these methods together.

But as I have previously said, these ideas are not easy to put over to large masses of people, and unless Mr. Aberhart were to persist in actually attempting to attain an increase of purchasing power by the processes he discusses I should not myself be inclined to take a political speech containing them with too much seriousness.

Yours sincerely,

(Signed) C. H. DOUGLAS.

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